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UNCLAS SECTION 01 OF 03 MAPUTO 000030

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TAGS: ECON EAID EINV ETRD MZ
SUBJECT: DECEMBER MONTHLY ECONOMIC WRAP-UP: MOZAMBIQUE

REF: MAPUTO 01757

FOREIGN INVESTMENT

¶1. (U) In December, KPMG Mozambique announced the "Top 100 Businesses in Mozambique" for 2002. The list was topped by Mozal, the large South African-owned aluminum smelter, generating the highest revenues for a firm in-country (foreign or nationally-owned) in 2002. Six US companies ranked in the Top 100. In descending order of generated revenue, these companies include: Coca-Cola, Mobil, Mobeira (owned by US corporation Seaboard), Avis Rent-a-Car, Colgate-Palmolive, and KPMG (REFTEL).

¶2. (SBU) The three consortia bidding on the Sena railway tender, Rites and Icon (India), Yenwin and CIRC (China), and the Beira Corridor Company (Zimbabwe/South Africa), should expect an award in the beginning of 2004. Contacts from the Zambeze River Valley Authority indicate that the award will most likely go to the Chinese consortium, as it was valued as the most affordable bid. CFM, the Mozambican Ports and Railways Company, has made its recommendation to the Economic Council of Ministers and the decision now sits with the GRM. The company awarded this contract will be responsible for rehabilitating the Sena Line (destroyed during the civil war) that travels from the lucrative Moatize coalmines to the port of Beira. (COMMENT: At the same time, there is a US company interested in launching a feasibility study on the Zambeze River to explore an alternative to exporting coal from Moatize to the coast via rail. The US firm visited Mozambique in December and met with various stakeholders, including the GRM. Despite new economic arguments, rehabilitation of the Sena line seems to be a political decision and it does not seem likely the GRM will endorse the barging option. However, in discussions with the World Bank, this organization has indicated they will not finance any project that is not economically sound, possibly leading the GRM to reconsider a barge option. END COMMENT).

MACROECONOMICS

¶3. (U) As reported by the daily newspaper, "Noticias", the Prime Minister told the Parliament that the GRM is planning on eight percent growth in the country's GDP for 2004. Introducing the country's Economic and Social Plan for the year, he predicted growth in all sectors of the economy, with mining and manufacturing being the highest-growth sectors. The only sector where growth will most likely be negative is in construction. This is a result of the completion of two gigantic projects in 2003, phase 2 of MOZAL and the natural gas pipeline constructed by SASOL. As for the 2003 estimates, the PM Mocumbi said GDP had grown by about seven percent. Inflation figures rounded out at eleven percent for the year, considerably higher than the GRM had hoped. Much of this inflation is attributed to the higher prices consumers have to pay for South African goods with a strongly valued rand.

¶4. (U) The Governor of the Central Bank gave his review of the 2003 economy and forecasts for 2004. He noted that Mozambique's economy remains heavily dependent on imports, notably food products from South Africa. The Bank's estimates indicate that the inflation rate will be above 10.8% for 2003. Like the PM, the Governor attributes the higher inflation in 2003 to the strengthening of the rand (and the economy's dependence on South African products), as well as to a decline in the supply of goods due to the drought and an increase in tariffs for water, electricity, and telephones. For 2004,the Bank forecasts an "8 percent economic growth and a 9 percent inflation rate". Accordingly, it estimates a 16 percent increase in monetary expansion and a 12 percent increase in credit to the economy.

TELECOMMUNICATIONS

¶5. (U) Vodacom officially launched cellular services in Mozambique in December, opening the industry to competition for the first time. Until now, government-owned Mcel served

as the sole cellular service provider. Vodacom plans an initial investment of $260 million in Mozambique. As a guest speaker at the formal launching ceremony, President Chissano highlighted the importance of rapid access to information. The introduction of an additional cellular service provider should reduce transaction costs, increase the quality of cellular products and services, expand the network of communications, and allow more choices for the consumer. Chissano welcomed further cellular companies interested in entering the Mozambican market, saying the country would keep its doors open to increased competition and investment. In its opening phase of operations, Vodacom Mozambique will cover six locations: Maputo/Matola, Xai-Xai, Bilene, Nampula and the roads from Maputo to Swaziland and Maputo to South Africa. For the first time, customers will be able to pre-pay for roaming, allowing use of their cell phones from South Africa to Mozambique. Vodacom Mozambique Executive Director announced that Vodacom would capture 45% of the Mozambican market in less than three years. Quoted by a local news source, he believes that the quality of customer care and efficiency of network service provided by Vodacom will attract the target audience. Vodacom also operates in South Africa, Lesotho, Tanzania, and the DRC. Mcel is fighting the competition by offering perks for current customers, including a number of free text messages and better contract deals, and has begun lowering international rates. It is estimated that Mcel has 400,000 clients, saturating the market. Vodacom has undertaken an aggressive promotional campaign, including advertising and opening of new stores.

AVIATION

¶6. (U) The Mozambican Aeronautics Company (IAM), responsible for the repair and maintenance of planes, has declared bankruptcy, citing the lack of a local market for its services. Seventy percent of IAM's shares are held by the Portuguese group OGMA, while the Mozambican light aircraft company, TTA, holds the remaining thirty percent. Speaking to the press, a lawyer for the firm noted, "During the last two to three years we did not repair a single plane." He went on to say that most planes operating in Mozambique are repaired in South Africa.

ENERGY

¶7. (U) The African Development Fund (ADF) approved a $12.9 million loan and a grant of $2.81 million to finance an Energy Access Reform Program in Mozambique. This program plans to expand the electric network, specifically to rural areas. With the participation of the private sector, the program will provide electricity to 400,000 people by 2007; 300 schools and health centers in the project area would have access to solar energy. The program also includes a reform of the electric power sector, installation of electrification systems, promotion of renewable sources of energy, and auditing services. These projects will be financed by the ADF, the World Bank, World Fund for the Environment, Nordic Development Fund, and the GRM at a total cost of approximately $80 million.

LABOR

¶8. (SBU) The Economic and Social Council of Ministers passed a new labor decree this month that will fare worse for employment of foreign labor. Private sector groups have argued that the new decree will hamper investment by keeping restrictive labor policies in place. After eighteen months of solid negotiation and weekly meetings with private sector employers, the Ministry of Labor reneged on its promise to create a decree allowing for 10% of a firm's workforce to be contracted internationally. Private sector organizations are furious about the passage of this decree and are making pleas to the Prime Minister not to sign the legislation. If endorsed by the PM, the labor decree could stifle the private sector's ability to contract skilled labor and bring in the necessary technological know-how to operate modern firms. As the situation stands, there is a dearth of technically qualified workers locally and firms must be able to have the flexibility to choose a percentage of their workforce based on varying skill levels. Private sector organizations are pleading with the GRM to scrap the new decree and leave the 1999 decree in place, despite that decree's many shortcomings. (Comment: As of January 8, 2004, the PM had not endorsed the decree. Private sector umbrella group CTA is currently engaged in negotiations with the Ministers of Labor, Planning & Finance, and Industry & Commerce to modify the decree and make it friendlier to the business community. End comment.)

¶9. (U) Luisa Diogo, Minister of Planning and Finance, announced that the government is doing its "utmost" to ensure that all state employees receive their monthly wages

on time, according to the Mozambican News Agency, AIM. Diogo said her Ministry has tried to identify reasons for recent delays in payments to public sector employees. According to the Ministry, reasons ranged from theft of wages, to "irresponsible" behavior, to the absence of banks. This month, the 100 year old system of using "bank titles" to pay out wages was replaced with direct, computerized payments from the Ministry of Finance to the beneficiary institutions. Diogo admitted there have been some "hiccups" with implementing the new system, but that things should run smoothly starting with payment of December wages.

OIL AND GAS

¶10. (U) The oil terminal at the Port of Beira is operating far below its level of capacity, reports the local newspaper, "O Autarca". The terminal is prepared to receive large ships with up to 50,000 tons of oil, but there is a critical problem of blocked access to the channel due to heavy sedimentation and the need for further dredging. Currently, the port can only receive ships with a maximum of 30,000 tons of oil. Constructed in 1994, the Beira Port Oil Terminal is considered one of the most modern in the Southern African Region. CFM, the Mozambican Ports and Railways Company that manages the port, earns $1.8 for every cubic meter of oil brought into port. This year, 1,000,000 tons was planned. However, according to numbers released in September, the port had only achieved the importation of 52% of this planned amount. The discrepancy in figures may be due to the inability of ships to enter Beira with large amounts of petroleum as intended.
HANKINS